1994 ANNUAL REPORT

CASCADE
OIL & GAS LTD.

Corporate Profile

Cascade Oil & Gas Ltd. is a junior public energy corporation established in 1987 whose management is committed to long-term corporate growth through assembly and control of low-cost undeveloped and underdeveloped lands and cost-effective exploration for, and development of, hydrocarbon reserves on its lands. Cascade's activities are limited to the Western Canadian Sedimentary Basin and are particularly focused on southwestern Saskatchewan.

Officers and Management

W. Bruce Woods
President & Chief Executive Officer

Kevin R. Baker
Secretary & Chief Financial Officer

Art C. Stirrett
Geological Consultant

Directors

Kevin R. Baker
Calgary, Alberta

Roy R. Baker
Scottsdale, Arizona

Ernest F. Stevens
Edmonton, Alberta

W. Bruce Woods
Calgary, Alberta

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Registrar and Transfer Agent

Montreal Trust Company of Canada
Calgary, Alberta

Auditors

Antony Chittick Bleackley & Hanson
Calgary, Alberta

Solicitors

Burnet Duckworth & Palmer
Calgary, Alberta

Investor Relations Information

Stock Listing Symbol: COL
The Alberta Stock Exchange

For more information contact:
W. Bruce Woods (403) 262-1949

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Message to Shareholders

Cascade's exploration and development focus is concentrated in oil prone southwestern Saskatchewan, where between 1990 and 1994 Cascade acquired interests in approximately 26,000 gross acres (12,000 net acres). Cascade focused on the area because it was underexplored, particularly in the pre-Jurassic section, and offered a good supply of available Crown lands at reasonable prices. The Cascade lands have been acquired mostly through crown sales.

Production from the area has been mainly medium gravity crude oil from vertical wells drilled into formations down to and including the Jurassic Shaunavon formation. Although no deeper discoveries have yet been reported, Cascade and others believe the area to have strong exploration prospects for the discovery of prolific pre-Jurassic production of hydrocarbons.

In 1994 the area was "rediscovered" by the energy industry. There was a dramatic increase in land and seismic acquisition. There are indications that 1995 will see a significant increase in drilling activity. In the area surrounding the Cascade lands, almost all of the available crown lands were purchased by two or three very active players at a cost of many millions of dollars.

In 1994, Cascade participated in the drilling of 4 exploratory wells (1.87 net) which were abandoned: 1 well in Alberta and 3 wells in Saskatchewan. In addition Cascade stimulated the Leon Lake horizontal well. The stimulation was performed and although the well experienced a very short term increase, the production rate returned to its previous level of approximately 15 barrels of oil per day (bopd), mainly due to low bottom-hole pressures. As a result of increased operating costs and the cost of the above operations and their impact on ceiling test and associated depletion calculations, Cascade recorded a loss of approximately $487,000 in 1994.

Cascade remains cash-flow positive and debt-free and currently has approximately $700,000 in cash. Management will be spending the cash carefully: total capital expenditures will be dependent upon exploration and development results achieved.

Having established what management believes to be an excellent low-cost land position in southwest Saskatchewan prior to the 1994 surge of activity and increase in land prices, Cascade will now benefit from the increased presence and availability of seismic crews, drilling rigs and other services in the area. The profile of the area has been raised by the presence of recognized aggressive companies and it is expected that as we move into 1995 the enhanced profile of the area should assist Cascade in obtaining third party participation in prospects on Cascade lands.

Each of the 3 Saskatchewan wells drilled and abandoned in 1994 yielded important stratigraphic and geochemical information which when combined with newly acquired seismic data supports Cascade's developing geological concept for the area. The Company plans additional drilling on this deeper play in 1995 as well as Shaunavon development drilling. Drilling costs in the area are relatively low and good production infrastructure is in place.

In 1995, Cascade will direct its efforts toward exploring for and developing reserves through vertical drilling in southwest Saskatchewan.

We appreciate the commitment and ongoing support of our shareholders.

W. Bruce Woods
President & Chief Executive Officer
April 24, 1995

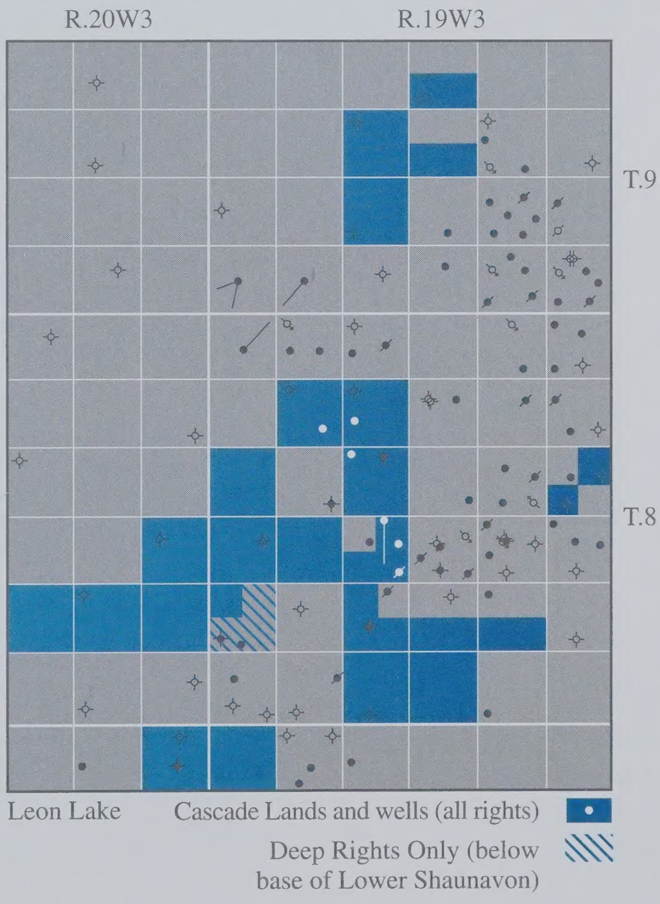
Review of Areas of Activity

Leon Lake, Saskatchewan

The Leon Lake area, located approximately 50 kilometres south of Gull Lake, Saskatchewan, is expected to be the focus of Cascade's 1995 exploration and development activity. Cascade has working interests in the area ranging from 17.7 percent to 80 percent (average 38.6 percent) in approximately 13,200 gross acres (5,100 net acres). Cascade net production from the Leon Lake area averaged 24 bopd in 1994 representing approximately 25 percent of total Cascade production.

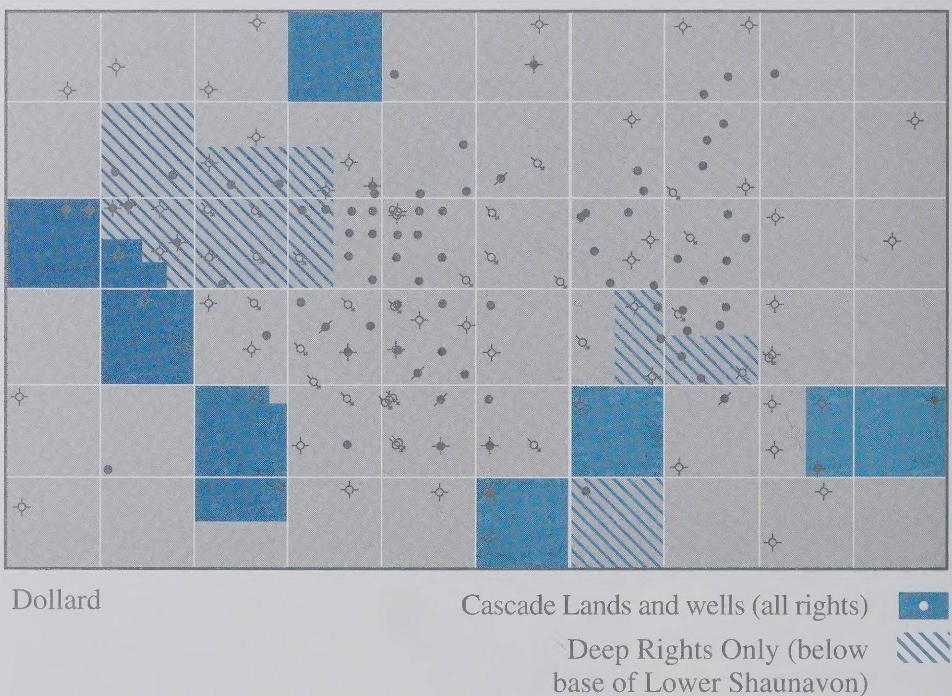
Cascade recently shot approximately 30 kilometres of new off-road seismic in the Leon Lake area to further explore lands in which Cascade holds interests in a joint venture with another corporation (Cascade 40 percent). The data quality is excellent and confirms several prospective features which will be further pursued. The seismic was shot under a seismic option and farmout agreement covering 9,120 acres which permits Cascade to earn a further interest in up to 3,840 acres of the joint lands by shooting seismic and drilling up to three new wells all at Cascade's option. It is expected that Cascade will continue to pay for its 40 percent interest in the project and a third party will participate for the farmout interest.

Cascade management believes that there are further reserves to be found in the Upper and Lower Shaunavon formations and that there is also potential for discovery of reserves in deeper formations. The area is basically unexplored in the deeper formations. Through the use of modern seismic Cascade intends to pursue prospects with multi-zone potential which can be exploited using low cost conventional vertical drilling technology. Cascade operates a battery with a direct pipeline connection in the area which will assist the Company in bringing in new reserves on stream quickly and at low cost.



Dollard, Saskatchewan

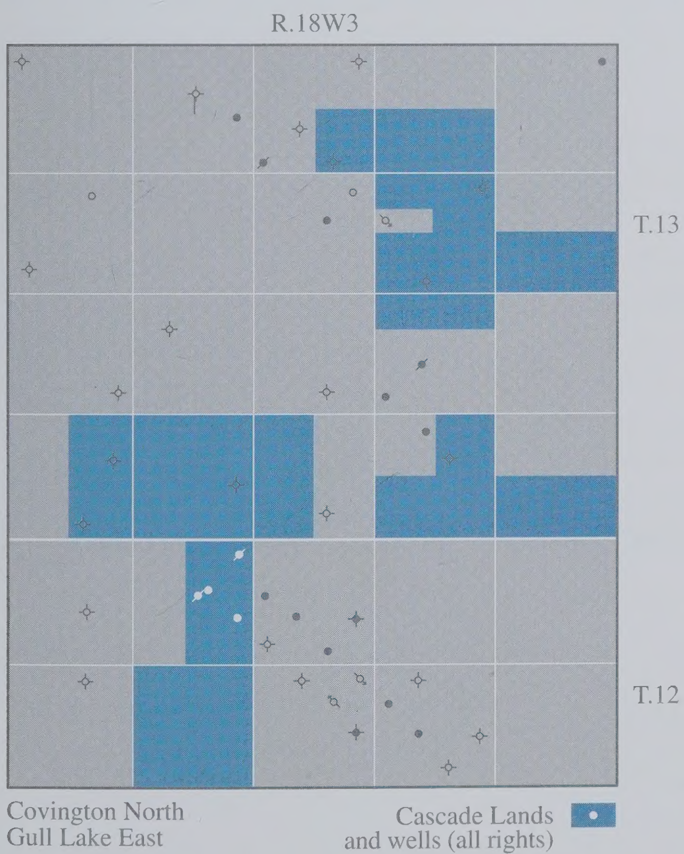
The Dollard area is located a few kilometres south of the Leon Lake area in southwest Saskatchewan. In the Dollard area, Cascade has working interests ranging from 16 percent to 80 percent (average 56 percent) in approximately 9,000 gross acres (5,000 net), some of which is limited to rights below the Lower Shaunavon formation. To date, Cascade has no production from the area. Historically, the Dollard area has been a prolific producer from the Upper Shaunavon formation. While Cascade continues to search for further hydrocarbons in the Upper Shaunavon, attention has also been focused on deeper formations. In 1994, Cascade participated in and operated two wells to test deeper formations. The wells were drilled on seismic anomalies and although no commercial hydrocarbons were recovered, the anticipated geological formations were encountered and the wells have provided Cascade with valuable proprietary geological and geophysical information which has enhanced Cascade's understanding of the pre-Jurassic potential of the area.



Note: The wells shown in the plat above produce from zones in which Cascade does not hold an interest.

Covington North/Gull Lake East, Saskatchewan

Cascade holds working interests ranging from 32 percent to 80 percent (average 50 percent) in approximately 4,560 gross acres (2,300 net) in this area which is located just a few kilometres south and east of Gull Lake, Saskatchewan. Production in the area is typically medium gravity crude from the Upper Shaunavon, Roseray and Cantuar formations. Cascade's production in the area is from two wells, one of which is Upper Shaunavon and the other Cantuar. It also has interests in two shut-in wells. Cascade is operator of all four wells. The area has multi-zone potential for oil production from the Cantuar, Atlas, Roseray and Upper Shaunavon formations and perhaps deeper formations also. In 1994, Cascade participated in the drilling and abandonment of one well in the area which encountered a well developed Roseray sand which unfortunately did not produce hydrocarbons in commercial quantities. Reports of recent drilling success by other companies just to the east of this area is creating renewed interest in the Gull Lake area. Cascade net production from the Covington North/Gull Lake East area averaged 28 bopd in 1994 representing approximately 29 percent of total Cascade production.



Covington North
Gull Lake East

OGSTON/GOLDEN/EVI, ALBERTA

Cascade owns a 1.95 percent interest in 11 wells and a 2.3218 percent interest in 2 wells, all of which produce from the Granite Wash formation. In 1993 and 1994, Cascade participated in the drilling of 2 new horizontal wells and the re-drilling of 3 existing vertical wells as horizontal wells. The results of the horizontal drilling are generally encouraging and there may be potential for further horizontal drilling. Cascade net production from the Ogston/Golden/Evi area averaged 18 bopd in 1994 representing approximately 19 percent of total Cascade production.

SAWN LAKE, ALBERTA

At Sawn Lake, Alberta, Cascade has working interests ranging from 9.9375 percent to 12.42 percent in 1,280 gross acres (144 net) and 8 oil wells (7 producing; 1 suspended) on the lands. The wells produce from the Slave Point formation. The wells are operated by a third party. Cascade net production from the Sawn Lake area averaged 10 bopd in 1994 representing approximately 10 percent of total Cascade production.

RAINBOW LAKE SOUTH, ALBERTA

Cascade owns a 7.5 percent working interest in 2 producing oil wells and a 3.75 percent working interest in 1 shut-in oil well in the Rainbow South area. The wells produce from the Keg River formation. The wells are operated by a third party and it is not expected that any further drilling will take place on the Cascade lands. Cascade net production from the Rainbow Lake area averaged 13 bopd in 1995 representing approximately 14 percent of total Cascade production.

Auditors' Report

To the Shareholders of Cascade Oil & Gas Ltd.

We have audited the consolidated balance sheet of Cascade Oil & Gas Ltd. as at December 31, 1994 and 1993 and the statements of operations and deficit and changes in financial position for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for each of the years then ended in accordance with generally accepted accounting principles.

Antony Chettick Bleackley & Hanson

March 10, 1995 — Chartered Accountants

Calgary, Alberta

CONSOLIDATED BALANCE SHEET

December 31	1994	1993
ASSETS		
Current assets:		
Cash and treasury bills	**$ 774,623**	$ 1,365,705
Accounts receivable	**155,260**	142,979
Alberta Royalty Tax Credit receivable	**43,779**	54,812
Prepaids	**7,640**	11,500
	981,302	1,574,996
Property and equipment (Notes 1 and 2)	**1,348,928**	1,286,591
	$ 2,330,230	$ 2,861,587
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 227,581**	$ 333,554
Provision for future site restoration (Note 1)	**56,678**	35,344
Shareholders' equity:		
Share capital (Note 3) -		
Authorized -		
An unlimited number of common shares without nominal or par value		
Issued -		
20,455,000 common shares	**4,121,249**	4,121,249
Deficit	**(2,075,278)**	(1,628,560)
	2,045,971	2,492,689
	$ 2,330,230	$ 2,861,587

APPROVED BY THE BOARD:

____________________________ Director
W. Bruce Woods

____________________________ Director
Kevin R. Baker

Consolidated Statement of Operations and Deficit

Year ended December 31

	1994	1993
Revenue:		
Oil and gas production, net of royalties	$ **556,252**	$ 556,448
Interest	**49,595**	32,337
	605,847	588,785
Expenses:		
Production expenses	**323,360**	244,647
Depletion and amortization	**611,800**	2,172,163
Provision for future site restoration	**21,334**	12,577
Interest	–	2,818
General and administration	**136,353**	173,340
	1,092,847	2,605,545
Income (loss) before income taxes	**(487,000)**	(2,016,760)
Income taxes (recovered):		
Current (Note 4)	**3,497**	–
Deferred (Note 4)	–	(313,925)
Alberta royalty tax credit	**(43,779)**	(54,812)
	(40,282)	(368,737)
Loss for the year	**(446,718)**	(1,648,023)
Retained earnings (deficit), beginning of year	**(1,628,560)**	86,959
	(2,075,278)	(1,561,064)
Deduct: Loss on acquisition and cancellation of common shares	–	(67,496)
Deficit, end of year	**$(2,075,278)**	$(1,628,560)
Loss per common share	$ **(0.022)**	$ (0.091)

Consolidated Statement of Changes in Cash Position

Year ended December 31	1994	1993
Operating activities:		
Working capital from operations		
Net loss for the year	**$ (446,718)**	$(1,648,023)
Add (deduct): Items not requiring a current outlay of working capital		
Depletion and amortization	**611,800**	2,172,163
Deferred income taxes (recovered)	–	(313,925)
Provision for future site restoration	**21,334**	12,577
Expenditures on site restoration	–	(760)
	186,416	222,032
Changes in non-cash working capital items related to operations (1)	**(103,361)**	260,635
	83,055	482,667
Investing activities:		
Additions to property and equipment	**(794,137)**	(1,216,033)
Acquisition of Index Petroleums Ltd., net of cash acquired	–	(1,502,027)
Proceeds on sale of oil and gas properties	**120,000**	–
	(674,137)	(2,718,060)
Financing activities:		
Repayment of notes payable	–	(45,000)
Issue of common shares by public offering and warrants, net of issue costs	–	1,865,524
Issue of common shares on acquisition of subsidiary	–	1,640,614
	–	3,461,138
Increase (decrease) in cash and treasury bills for the year	**(591,082)**	1,225,745
Cash and treasury bills, beginning of year	**1,365,705**	139,960
Cash and treasury bills, end of year	**$ 774,623**	$ 1,365,705
(1) Changes in non-cash working capital:		
Increase in accounts receivable	**$ (12,281)**	$ (40,538)
Decrease in Alberta Royalty Tax Credits receivable	**11,033**	35,867
Decrease (increase) in prepaids	**3,860**	(9,775)
Increase (decrease) in accounts payable	**(105,973)**	275,081
	$ (103,361)	$ 260,635

Notes to Consolidated Financial Statements

DECEMBER 31, 1994

1. ***Accounting policies:***

(a) Consolidation-

The comparative consolidated financial statements include the accounts of Cascade Oil & Gas Ltd. ("the Company") and its wholly-owned subsidiary, Index Petroleums Ltd. ("Index"), which was acquired January 1, 1993. Index had two wholly-owned subsidiaries, however, both were inactive.

On January 1, 1994, Cascade Oil & Gas Ltd. amalgamated with Index Petroleums Ltd. During the year, one of the inactive subsidiaries was dissolved. The 1994 consolidated financial statements include the accounts of Cascade Oil & Gas Ltd. and its wholly-owned inactive subsidiary.

(b) Petroleum and natural gas operations

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized. Costs include land acquisition costs, geological and geophysical costs, costs of drilling both productive and nonproductive wells, production equipment and related facilities and various costs associated with evaluating oil and gas properties for potential acquisition. (At December 31, 1994 and 1993 there was $33,363 of costs associated with evaluating oil and gas properties included in petroleum and natural gas properties.) Such costs are accumulated, depleted and amortized on the unit-of-production method based on estimated gross proven recoverable reserves with net production and reserve volumes of natural gas converted to equivalent energy units of oil. At December 31, 1994, $550,000 (December 31, 1993- $496,475) of costs related to unproven properties have been excluded from costs subject to depletion and amortization.

Costs accumulated in each cost centre are limited to the future net revenue from estimated production of proved reserves, based upon year end prices, plus the value of unproved properties and major development projects. Costs accumulated in all cost centres are limited to the aggregate future net revenues from estimated production of proved reserves, based upon year end prices, plus the aggregate value of unproved properties and major development projects, less the aggregate estimated future production-related general and administrative, financing costs, future site restoration costs and income taxes for all cost centres.

All the Company's petroleum and natural gas exploration, development and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(c) Other capital assets

Computer software and office furniture is amortized on a declining balance basis at an annual rate of 20 percent and computer hardware is amortized on the same basis at an annual rate of 30 percent.

(d) Future site restoration costs:

Estimated future costs of restoring the Company's oil and gas properties are being provided on the unit-of-production basis. Such costs are expensed annually and accumulated in the provision account based upon proven reserve estimates and current production levels. When expenditures are made to restore a property, the accrued provision is charged with these expenditures.

2. ***Property and equipment:***

			Dec. 31 1994	Dec. 31 1993
	Cost	Accumulated depletion and amortization	Net book value	Net book value
Petroleum and natural gas properties, including exploration,development and equipment thereon	$ 5,702,345	$ 4,376,903	$ 1,325,442	$ 1,256,569
Office furniture and equipment	55,492	32,006	23,486	30,022
	$ 5,757,837	$ 4,408,909	$ 1,348,928	$ 1,286,591

At December 31, 1994 property and equipment is recorded at a net book value that is approximately $563,000 less than the net cost for tax purposes (December 31, 1993- $411,000).

3. ***Share capital:***

(a) Common shares

	Number of shares	Carrying value
Balance, December 31, 1992	6,780,000	$ 744,675
Shares issued-		
Issued on acquisition of Index Petroleums Ltd., net of related costs of $5,200	9,855,000	1,640,614
Issued for cash by public offering, net of related costs of $134,476	4,000,000	1,465,524
Issued for cash on exercise of warrants	1,000,000	400,000
Cancelled on acquisition of Index Petroleums Ltd.	(1,180,000)	(129,564)
Balance, December 31, 1993 and December 31, 1994	20,455,000	$ 4,121,249

(b) Granting of options-

On February 2, 1993, the Company granted to two officers and directors', an aggregate of 1,100,000 options to purchase common shares of the Company at an exercise price of $0.20 per common share. The options will expire January 31, 1998 if not exercised. No options were exercised during the year.

4. ***Income taxes:***

Income tax recovery (excluding Alberta royalty tax credit) varies from that which would be computed by applying statutory rates to loss before income taxes ("Pretax earnings"), as follows:

	1994		1993	
	Amount	Percent of pre-tax earnings	Amount	Percent of pre-tax earnings
Computed income tax recovery	$ (215,740)	(44.3)	$ (893,425)	(44.3)
Increase (decrease) resulting from:				
Federal resource allowance and Provincial deductions less than nondeductible crown charges	13,320	2.7	8,532	0.4
Permanent difference in depletion and amortization of petroleum and natural gas properties	–	–	339,283	16.8
Permanent difference on amortization of incorporation costs and deduction of share issue costs	(12,375)	(2.5)	(12,375)	(0.6)
Tax benefit of timing differences not reflected for accounting purposes	214,795	44.1	111,962	5.6
Rate differential on reversal of timing differences between accounting and taxable income	–	–	130,380	6.5
Prior years' income tax assessments	3,497	0.7	–	–
Other	–	–	1,718	0.0
Income tax expense (recovery)	$ 3,497	0.7	$ (313,925)	(15.6)

5. ***Related party transactions and officers remuneration:***

Two officers of the Company were remunerated $105,000 during the year ended December 31, 1994 (year ended December 31, 1993- $36,000). In 1993, a Company controlled by the president was paid management fees of $48,000 and other office expenses of $39,233 including salary of one of the other officers (1994- $7,775).

Management and Directors

W. Bruce Woods, of Calgary, Alberta has been President and Chief Executive Officer and a director of the Corporation since May 1987. Mr. Woods is a graduate of the University of Calgary (B.A. 1966) and a graduate of the University of British Columbia (LL.B. 1969) and is a member of the Law Society of Alberta. Mr. Woods was president of Index Petroleums Ltd. from 1982 until its purchase by the Corporation in 1993. Mr. Woods has been a director of Poco Petroleums Ltd. since 1980 and is a member of the audit committee of the board of directors. Mr. Woods now devotes all of his time to the business and affairs of the Corporation.

Art C. Stirrett, of Strathmore, Alberta has been a geological consultant to the Corporation for 5 years. Mr. Stirrett graduated from the Northern Alberta Institute of Technology in 1974 with a Diploma in Earth Sciences, Petroleum Geology. Mr. Stirrett is a member of the Canadian Society of Petroleum Geologists and the American Society of Petroleum Geologists. Mr. Stirrett has been President of Strathalta Resources Inc. since 1989. Prior to that, Mr. Stirrett was Vice-President and General Manager of Prime Energy Ltd., and Senior Geologist for Prime Energy Ltd. from 1982 to 1987.

Kevin R. Baker, of Calgary, Alberta has been Secretary and Chief Financial Officer and a director of the Corporation since May 1987. Mr. Baker is a graduate of the University of Alberta in Economics (B.A. 1969) and Law (LL.B. 1971) and is a member of the Law Society of Alberta. Until 1990, Mr. Baker was a partner in a major Calgary law firm. Since 1990, Mr. Baker has been President of Baycor Capital Inc. a private merchant bank which has its head office at Calgary, Alberta.

Roy R. Baker, of Scottsdale, Arizona has been a director of the Corporation since May 1987. Mr. Baker has been an independent consultant since his retirement in 1983. Prior to retirement, Mr. Baker was Vice-President of Exploration and Production for Texaco Europe, a division of Texaco Inc., an integrated, multi-national, public petroleum company.

Ernest F. Stevens, of Edmonton, Alberta has been a director of the Corporation since May 1987. Mr. Stevens has been President of EFS Management Ltd. for more than 10 years and, since February 1984 has been President of EFS Resources Ltd. a company involved in oil and gas exploration, development and production in Canada.

Designed and Produced by The Merlin Creative Group Inc.

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Printed in Canada